

South Carolina Department of Natural Resources

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2007

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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June 25, 2008

The Honorable Mark Sanford, Governor
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
Columbia, South Carolina

This report on the application of certain agreed-upon procedures to the accounting records of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 2007, was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Members of the Board and management of South Carolina Department of Natural Resources (the "Agency") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2007, in the areas addressed. The Agency's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected 25 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Agency's policies and procedures and State regulations.
- We inspected 10 selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system ("STARS") as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittances were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$160,000 – earmarked fund, \$110,000 – restricted fund, and \$170,000 – federal fund) and +/- 10 percent.

- We made inquiries of management pertaining to the Agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected 25 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Agency's policies and procedures and State regulations, were bona fide disbursements of the Agency, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 10 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$140,000 – general fund, \$160,000 – earmarked fund, \$110,000 – restricted fund, and \$170,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected 25 selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Agency's policies and procedures and State regulations.
- We inspected 5 selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for 5 selected new employees and 5 who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed-upon materiality levels (\$140,000 – general fund, \$160,000 – earmarked fund, \$110,000 – restricted fund, and \$170,000 – Federal fund) and +/- 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of +/- 5% percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected 5 recorded journal entries, 5 operating transfers, and 5 appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved when necessary, and were mathematically correct; and the transactions were processed in accordance with the Agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the Agency's policies and procedures and State regulations.

The transactions selected were chosen haphazardly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained monthly reconciliations prepared by the Agency for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Agency's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or in STARS.

The reconciliations selected were chosen judgmentally. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected Agency documents, observed processes, and/or made inquiries of the Agency's personnel to determine the Agency's compliance with Appropriation Act general and Agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of closing packages as of and for the year ended June 30, 2007, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Section A in the Accountants' Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2007, prepared by the Agency and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions and; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountants' Comments section of the Independent Accountants' Report on the Agency resulting from our engagement for the fiscal year ended June 30, 2006, to determine if Agency had taken corrective action.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, Members of the Board, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
June 12, 2008

ACCOUNTANTS' COMMENTS

SECTION A – VIOLATION OF STATE LAWS, RULES, OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the Agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred. The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

Litigation Closing Package

The State Comptroller General's Office obtains Generally Accepted Accounting Principles (GAAP) data from agency-prepared closing packages for the State's financial statements. The GAAP Closing Procedures Manual states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions and further states that, "The accuracy of closing package data is extremely important."

The Litigation Closing Package (the "closing package") was not submitted properly. The supporting documentation submitted with the closing package did not agree to the total amount of litigation expense per the closing package. A difference of \$253 was noted due to a manual line item added to the supporting documentation, which was not included in the total litigation expense per the closing package.

We recommend the Agency evaluate the processes for preparation and review of closing package data to ensure that accurate data is submitted with the closing packages to the Comptroller General's Office.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the Independent Accountants' Report on the Agency for the fiscal year ended June 30, 2006, and dated June 21, 2007. We determined that the Agency has taken adequate corrective action on all findings included in that report: Moving Expenditure Approval Documentation and Disbursements.

MANAGEMENT'S RESPONSE

South Carolina Department of Natural Resources



John E. Frampton
Director
Carole Collins
Deputy Director for
Outreach and Support Services

June 24, 2008

Mr. Richard H. Gilbert, Jr.
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

This letter is in response to the Independent Accountants' Report on Applying Agreed-Upon Procedures for the year ended June 30, 2007.

In reference to the finding in Section A of the Accountants' Comments citing that the Litigation Closing Package was not submitted properly, the Accounting Department, henceforth, will review more closely and foot the Litigation Closing Package as well as all other closing packages. It is our intention to be 100% accurate and we try very hard to maintain those standards, however we are all human and make mistakes. Of the 12 closing packages submitted this is the only one with an error and it is less than 1% of the package total, which is immaterial for this package and extremely immaterial for the agency as a whole.

The appropriate Finance staff have been advised that all closing packages are to be manually checked for accuracy and footed prior to being submitted to the Comptroller Generals Office. This should eliminate reoccurrence.

Sincerely,

A handwritten signature in black ink that reads "Alarice W. Robinson". The signature is fluid and cursive, with the first name "Alarice" being the most prominent.

Alarice W. Robinson
Business & Finance Manager